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ENCLOSURE A

BACKGROUND OF NVN INDUSTRY

1. Plans and policies

a. The long term basic objective of the North Vietnamese leadership is the transformation of an underdeveloped, agricultural country into a modern industrial nation. The general framework in which this objective is being pursued is based on Communist aims of socialization of private property, development and expansion of industry, restriction of personal consumption in order to increase investment, and maintenance of a relatively large military force.

b. Economic policy in North Vietnam during 1955-57 was essentially a policy of reconstruction after long years of international and civil war. The chief efforts of the regime were devoted to the reconstruction and rehabilitation of basic transportation and communications facilities and to the restoration of prewar levels of production.

c. The program of economic recovery was followed by a Three Year Plan (1958-60) for economic development, which called for substantial and overambitious increases in agricultural and industrial production. However, agricultural production fell far short of the 3-year plan goal, increasing less than 14 percent over 1957. Investment in agriculture during the plan period declined from 15 percent of total investment in 1958 to about 10 percent in 1960. Industrial production, on the other hand, reportedly did better, increasing 76 percent during the plan period. The increase in industrial output was achieved through a tripling of total state investment in industry during the period 1958-60 compared with 1955-57.

d. The Three Year Plan was designed to transform the mixed private and state economy of the country into a uniform socialist economy. The regime claims that by the end of 1960, about 85 percent of all peasant households, all factory industry, and about 88 percent of all handicraft workers, "nearly all" commercial

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enterprises, and more than 90 percent of mechanized transport were brought directly under state control. Although there was a more intensive effort to socialize the economy, particularly in 1960, part of these percentage increases probably represent more a matter of official statistics than a change in actual working conditions.

e. The first Five Year Plan (1961-65) calls more investment in heavy industry than in the past, particularly in machine building, chemicals, electric power, and metallurgical industries. Because of poor harvests and deficiencies in agricultural and industrial planning and management, the pace of industrial as well as agricultural development has fallen far short of the regime's over-ambitious goals. Recognizing that many of the targets developed in 1960 for the first Five Year Plan were unrealistic, the regime has since reduced these goals. Revised plan goals announced in May 1963 called for agricultural and industrial production by 1965 to be 37 percent and 119 percent greater, respectively, than production in 1960, whereas the original plan had called for increases of 61 percent in agriculture and 148 percent in industry.

f. Although North Vietnamese planners were forced to modify their first Five Year Plan goals, they evidently have not abandoned their drive for the rapid industrialization of the country.

2. Industry

a. Since 1955 the DRV regime has followed a program for the rapid industrialization of its economy, with large-scale financial and technical assistance from Communist China and the U.S.S.R. The program for industrial expansion is relatively ambitious and has been moderately successful, not only in comparison with past efforts but also in comparison with the industrial efforts of most other underdeveloped countries in Asia. New modern industries include the machine-building industry, the chemical industry, food processing industries such as rice milling and sugar refining,

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and other light industries such as enamelware, paper, and soap. Industries that existed before the Communist takeover, such as cement and textiles, have been expanded. The first modern iron and steel plant in Southeast Asia is now under construction in North Vietnam at Thai Nguyen.

b. The principal centers of industrial activity in North Vietnam--Hanoi, Haiphong, and Nam Dinh--were also important in the French colonial period. Three new centers, however, are emerging at Viet Tri, Thai Nguyen, and Phu Tho as a result of aid from Communist countries, mainly China and the U.S.S.R. The industrial site at Viet Tri now includes a papermill, a chemical plant, a sugar refinery, a power plant, and a plant to produce prefabricated concrete parts. The industrial complex at Thai Nguyen is based around the iron and steel mill, while industrial activity at Phu Tho centers around the Soviet-built superphosphate plant, the largest operating chemical fertilizer plant in North Vietnam.

c. The food processing industry is the single most important industry in North Vietnam, accounting for more than one-fourth of the total value of factory production in 1962. The major food processing industries, which are widely distributed in the eastern half of the country, are rice milling, sugar refining, tea processing, and fish canning. Rice milling has been traditional and remains the most important branch of food processing industry. Although Communist China had built 14 modern rice milling factories for North Vietnam by the end of 1960, rice milling remains largely a cottage-type industry. Considerably less important but historically well established are the distilling and brewing industries concentrated in Hanoi. Relatively new industries, established largely with foreign aid, include the refining of sugar; canning of food; and the processing of tea, tobacco, vegetables, and livestock products.

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d. The textile industry is the second most important industry, accounting for about 15 percent of the total value of factory production in 1962. The production of cotton textiles dominates the industry, although the country does produce small quantities of silk and part-silk textiles and wool textiles. The Nam Dinh textile mill produces almost all of North Vietnam's cotton yarn. The domestic production of raw cotton, however, furnishes only about 20 percent of the country's requirements and the remainder is imported.

e. Production of industrial, transportation, and military machinery and equipment is still small. The country's modern machine-building industry consists largely of one plant, the Hanoi Engineering Plant, completed in 1958 with Soviet aid. The plant produces several kinds of machine tools including lathes, grinders, and drilling and boring machines. With the exception of this plant and two other smaller machine tool plants (Tran Hung Dao, in Hanoi, and Duyen Hai, in Haiphong), the production of machinery and parts is confined to repair plants, foundries, small machine shops, and a few large automobile garages. In 1962 the machine-building industry accounted for nearly 14 percent of the total value of factory production. Although North Vietnam produces relatively simple electrical equipment (including transformers, batteries, and switchgear), it does not manufacture electrical generating equipment. Most military and civilian needs for electrical equipment are met by imports. All railroad rolling stock and other vehicles also are imported. Shipbuilding and repair facilities are capable of constructing and maintaining small coastal and inland-water craft but are reported incapable of major repair of freighters. Aircraft repair facilities are insignificant, and munitions and military equipment are almost entirely imported. Local industries can produce only small quantities of crude small arms and small-arms ammunition.

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f. The chemical industry is still small, accounting for about 10 percent of the value of production of factory industry in 1962. The capacity of the chemical industry has expanded rapidly since 1960 with the coming into operation of such plants as the Viet Tri chemical plant and, at Phu Tho, the Lam Thao superphosphate fertilizer plant. The first nitrogenous chemical plant in the country, located at Bac Giang, is being built with Communist Chinese aid and was scheduled for completion in 1965. North Vietnam, however, still depends mostly on imports for the chemicals needed to satisfy its industrial requirements.

g. Despite the rapid growth in industrial production, there has been poor planning and coordination in the attempt to build a modern industrial sector, and the quality of many manufactured goods remains low. The frequency of articles in the North Vietnamese press criticizing the low quality of many goods and the high rate of rejection of products in many factories indicates that this is a serious problem facing economic planners.

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